

4. (a) Define the following terms indicated in bold in the text:

(i) subsidies (*paragraph 1*) [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is money given to firms by the government.

2 *Precise definition* 2

An explanation that they are a payment made by a government to a firm or industry in order to:

– reduce costs of products

or

– increase supply

or

– lower the price to consumers

or

– give domestic producers an advantage in international trade

(Candidates may only give the reasons for subsidies and this may be rewarded with [1 mark].)

(ii) income elasticity of demand (*paragraph 5*). [2 marks]

level

0 *Wrong definition* 0

1 *Vague definition* 1

The idea that it is a relationship between income and demand.

2 *Precise definition* 2

An explanation that it is a measure of the responsiveness of quantity demanded or demand to a change in income. (Candidates may give only the equation and this may be rewarded with full marks.)

- (b) Using an appropriate diagram, explain the effect of the EU tariff on frozen strawberries on the European market for frozen strawberries. [4 marks]

level

- | | | |
|---|--|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled diagram, where the imposition of a tariff on strawberries forces up the world supply curve, reducing the quantity of imports and increasing domestic supply or for providing an explanation of how the tariff will force up the price in the EU, which will increase the quantity supplied domestically and reduce imports. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled diagram, where the imposition of a tariff on strawberries forces up the world supply curve, reducing the quantity of imports and increasing domestic supply and for providing an explanation of how the tariff will force up the price in the EU, which will increase the quantity supplied domestically and reduce imports. | 3-4 |

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

The use of P and Q on the axes is sufficient for a demand and supply diagram. A title is not necessary.

- (c) Using an appropriate diagram, explain the type of unemployment that Poland might experience without the strawberry tariff. [4 marks]

level

- | | | |
|---|--|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a correctly labelled diagram, showing a fall in demand for labour in the strawberry industry OR for providing an explanation of how the type of unemployment is structural unemployment, since there has been a change in the structure of the economy, caused by cheap imports, and thus a fall in demand for labour in the strawberry industry. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a correctly labelled diagram, showing a fall in demand for labour in the strawberry industry AND for providing an explanation of how the type of unemployment is structural unemployment, since there has been a change in the structure of the economy, caused by cheap imports, and thus a fall in demand for labour in the strawberry industry. | 3-4 |

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

For a labour market diagram, the vertical axis may be wages, wage rate, or the price of labour. The horizontal axis should be quantity of labour, employment, number of workers, or simply labour or workers. A title is not necessary.

- (d) Using information from the text/data and your knowledge of economics, evaluate a decision to increase protection in the EU strawberry industry. [8 marks]

Responses may include:

- definition of protection
- higher prices for consumers
- welfare loss and efficiency loss/misallocation of resources
- revenue from the tariffs
- higher employment in Polish strawberry industry (text/data)
- higher costs for importers of strawberries
- higher costs of production in industries which use strawberries such as jam, yoghurt and ice cream industries (text/data)
- retaliation from China, possibly in the EU wine and cheese industries (text/data)
- possibility that other industries will lobby for protectionism, *e.g.* Spanish furniture makers and Belgian apple farmers (text/data)
- damaging effects on China's growth.

Examiners should be aware that candidates may take a different approach, which if appropriate, should be rewarded.